

HONECK
O'TOOLE

...where people count

2nd Quarter 2016

AIRBNB, MAINE SHORT-TERM RENTALS AND TAXES

With Portland, Maine being lauded as "the best city" by a number of travel publications, websites and other organizations (it was even voted the "best road city" in baseball's minor leagues, according to Baseball America in April 2016) — people are flocking to Portland and other Maine locations, looking for short-term and vacation home rentals.

And, thanks to websites such as Home Away, Airbnb and Craigslist, local property owners are riding the short-term rental wave; we're definitely seeing an increase in short-term home rental activity. In a recent Portland Press Herald article, it was reported that there were more than 250 rentals advertised in downtown Portland alone.

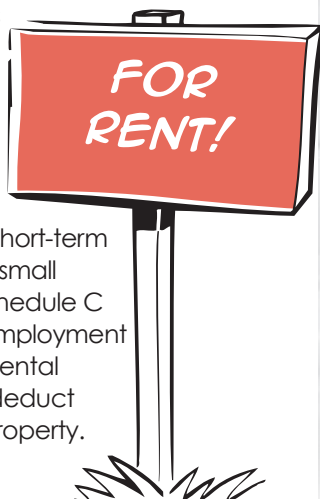
However, most new short-term lodging providers don't realize they're supposed to collect lodging tax for Maine and also pay income tax on the rental income. Also, regulations are starting to pop up throughout the state as municipal governments try to control neighborhood disturbances and other concerns such as parking, insurance and safety.

We're certain no one is thinking about all this when they start renting an apartment, vacation cottage or parts of their primary home. They think, "Hey! What a great way to make some nice cash from the hot demand in our market."

So with it being summer in Maine, we wanted to bring these tax rules and other regulations to your attention... just in case you're renting out property to short-term guests.

- **You're running a small business and you need to report it.**

If you're collecting income from short-term rentals, you're actually running a small business to be reported on IRS Schedule C form, and you need to pay self-employment tax as well as income tax on the rental income. However, you can also deduct expenses related to your rental property. (See our "Schedule C Reporting" information on page 2.)



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revenue

Ideas to help small businesses and individuals maximize income while minimizing taxes.

THANKS VERY MUCH FOR YOUR TAX-RETURN BUSINESS!

We appreciate you choosing our team to prepare your 2015 tax returns. Our professionals cranked into high gear from February through April 18 to get as many returns filed as possible. It took over 8,500 staff hours in 10 short weeks to get the work done.

Thank you for putting your trust and faith in us, and for referring us to your friends and colleagues.

We prepared tax returns for many new clients this year, and we know it's mainly because of your referrals. Thank you!

Your Honeck O'Toole Team 



FRIDAY SUMMER HOURS AT HONECK O'TOOLE

Since everyone worked extra hard this past tax season, we're rewarding their efforts with "Summer Fridays." This means two things.

- Fridays are "business casual" after Memorial Day until Labor Day. And,
- In August and for Labor Day weekend, we'll be closing the office on Fridays. Of course, clients come first! So if those Fridays are the only time you can meet with us, we'll be here. Just let us know.

Many thanks for kindly working with us around our summer Friday schedule. 

- **You may need to register with your town.**

Several Maine cities and towns have established regulations for short-term rentals. For instance, Cape Elizabeth requires permits for rentals of fewer than 30 days; Bar Harbor requires registration with the town, plus an inspection and a fee. Rockland recently adopted regulations to register short-term rentals and show proof of insurance.

Nationwide, cities and towns have established similar regulations and fees. For example, in Santa Monica, CA, people renting short-term properties must have a business license, pay a 14% occupancy tax and have a host living on the property during the rental. Savannah, Austin, Vail, Seattle and Nashville are just a few other cities requiring short-term rental permits and other regulations.

Therefore, to avoid a fine or other unpleasant surprises, be sure to check with your town office to understand the local requirements.

- **Maine does not have statewide regulations... yet.**

In 2015, a group of lawmakers presented bill L.D. 436 to establish short-term rental regulations across the state regarding lighting, ventilation, fire safety, plumbing and posting maximum room rates in bedrooms (similar to hotel postings). Although this bill did not get passed, we expect the issue to come up again.

If you'd like to know the specific implications of your short-term rental (related to income, taxes, reporting requirements, etc.), call us at 207-774-0882 or email us at info@honeckotoole.com. 📞

NOTE: Reporting Short-Term Rental Income on Schedule C

Schedule C (Form 1040), Profit or Loss From Business

Generally, Schedule C is used when you provide substantial services in conjunction with the property, or the rental is part of a trade or business. (Rentals would be reported on Schedule E Rental Real Estate when little or no services are provided directly by you, i.e. you use a management company.)

Providing substantial services:

- If you provide services that are primarily for your guests' convenience, such as regular cleaning, changing linen, or maid service, you report your rental income and expenses on Schedule C (Form 1040), Profit or Loss From Business, or Schedule C-EZ (Form 1040), Net Profit From Business. Substantial services do not include the furnishing of heat and light, cleaning of public areas, trash collection, etc. For more information, see Pub. 334, Tax Guide for Small Business.
- If your rental activity is a partnership (including a partnership with your spouse unless it is a qualified joint venture), use Form 1065, U.S. Return of Partnership Income.
- Also, you may have to pay self-employment tax on your rental income using Schedule SE (Form 1040), Self-Employment Tax. For a discussion of "substantial services," see Real Estate Rents in Pub. 334, chapter 5.

Questions about this form and your requirements?

Call us at **207-774-0882** or email us at info@honeckotoole.com. 📞

DIGITAL ESTATE PLANS:

Are You Prepared?

Lately we've been advising clients about digital assets and how to plan for access to those digital assets in the event of a death. This may be something you've been wondering about, too. If not, maybe you should.



What exactly are digital assets?

Consider today's online world where people are creating digital media all the time: websites, videos, e-books, photographs, video games, computer programs and other online assets. These elements can be viewed, shared and downloaded on computers, tablets, etc. But who owns these assets if the creator dies? And how do beneficiaries access these assets?

That's where a digital estate plan comes in: it's a document that spells out how digital assets are inherited by beneficiaries such as family members.

Ideally, anyone who creates digital media or other assets should keep records of these items — along with how to access them — and a will, as part of estate planning. For instance, if you own a website, you should provide a document on how to access the website's host company, domain registration account, platform password (such as a WordPress password), photographs, etc., and even social media account(s). This will ensure that your family isn't "locked out" if anything should happen. 📞

GIFT A CHILD WITH MAINE NEXTGEN COLLEGE SAVINGS

What's a perfect new-baby gift, first birthday gift, preschool graduation gift, or anytime gift for a child or grandchild?

Maine's NextGen (529) college savings plan — a tax-advantaged account where you invest after-tax money now, let it grow, tax-free... and then allow the student to withdraw the money tax-free when it's time to pay for qualified higher-education expenses. The account owner is the person who opens and funds the account, and the beneficiary is the child. AND, accounts owned by Maine residents for Maine beneficiaries are eligible for matching grants, multiplying that

growth! See why it's a great gift?

There's the \$500 Alford Grant for anyone born as a Maine resident after 2013. You just have to open a NextGen account for them. Then there is the NextStep Matching Grant up to 50% of the first \$600 contributed in a year. So if you put in \$600 and are matched \$300, the total contribution becomes \$900. Now that is generous! Over a child's life that could really add up.

In addition, you may receive a deduction on your Maine return of \$250 if your income

is less than \$100,000 for single filers and \$200,000 for married filing joint or head of household.

If you're thinking of gifting a child with this major benefit, consider providing funds to the child's parents so they can manage the account. Here's why.

When the child applies for financial aid for a school, the

aid formulas are "more favorable" if withdrawals are made from NextGen accounts owned by the PARENTS versus someone else. 🏠



Questions?

Call us for assistance at **207-774-0882** or email us at **info@honeckotoole.com**.

YOUR BUSINESS MAY QUALIFY FOR A MAINE ETIF REFUND

We wanted to make sure you know about the Employment Tax Increment Financing (ETIF) program established by the Maine Department of Economic and Community Development.

This program was designed to encourage local business growth and employment by providing Maine businesses with a 30-80% refund on state withholding taxes paid for new employees for up to ten years. The Department reported that in 2014, this program helped 161 Maine companies claim \$13 million in reimbursements.

Does your business plan to hire 5 or more new, full-time employees over a two-year period?

If so, you may be eligible for ETIF refunds. We can help you determine if you qualify (it's partly based on the new employees' salaries), how to become a State Vendor so you can receive reimbursement, when and how to apply for reimbursement, etc. It's a somewhat complicated formula and process to qualify, but it's completely worth investigating. 🏠

For assistance, call us at 207-774-0882 or email us at info@honeckotoole.com.



TAX CREDITS FOR RECENT MAINE COLLEGE GRADS

If you're a recent Maine college graduate — or you know one — this big tax break may be just the ticket to help pay off student loan debt.

The Opportunity Maine credit is an incentive program that essentially pays recent graduates up to \$4,500 a year if they stay in Maine to work and live. Credits are the highest if you have a degree related to STEM careers (science, technology, education or math).

For the 2016 tax year, this program is open to all post-2008 college

graduates, not just those from Maine colleges and universities. So if you're a Maine student who graduated from any school in the United States, Maine wants to keep you here in your home state.

For complete details and to find out if you qualify, visit **Opportunitymaine.org**. 🏠



DISCLAIMER

Any accounting, business, or tax advice contained in this communication is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. If desired, Honeck O'Toole would be pleased to perform the requisite research and provide you with a detailed written analysis. Such an engagement may be the subject of a separate engagement letter that would define the scope and limits of the desired consultation services.

CLIENT PROFILE


ELLEN ROBERTS

Mixed Media Artist

Ellen Roberts, a mixed media artist who lives and works in Farmington, Maine, has been shown this past year in some important group exhibitions, including "Focus, Printmaking" at the Greenhut Gallery in Portland, and the "Piano Roll Project" at the Bates Mill Complex. She's currently in an international print exchange between Circling the Square Fine Art Press of Gardiner, Maine and Estampéria Quiteña of Quito, Ecuador, which just opened in Belfast at the Waterfall Arts Center. Her work has been purchased by private and public collectors.

In March, she showed her work in Quito, Ecuador, along with 16 other Circling the Square Fine Art Press Maine artists and 15 Ecuadorian artists from Fundación Estamparía Quiteña. She said, "We were able to go to Ecuador and meet the people who we had the exchange with, and experience our shared interest in biodiversity and protecting the earth."

She added, "My work is very abstract but begins with nature and the landscape. In 'A Sense of Place/El Sentido de Lugar,' I became fascinated with bird migration. Some of my work reflects the four specific warbler species that fly from Ecuador to Western Maine... as a metaphor for our exchange with the Ecuadorian artists in that these neotropical migrant birds had to rely on both environments to survive."

If you're unable to visit the Belfast gallery before her exhibit ends July 22nd, the show will be on exhibit from September 16–November 25, 2016 at Sotheby's, Damariscotta, ME, and from December 3, 2016–January 6, 2017 at the Viles Arboretum, Augusta, ME. Also visit EllenRoberts.me to see more. 



HONECK O'TOOLE

is Hiring

We're looking for a CPA (or close to it) to join our team. Ideally you'll have 3-5 or more years of experience in public accounting and an interest in tax and financial planning. Perhaps you're a senior-level CPA or just an extraordinary professional looking for a friendly new work environment. Let's talk if you're curious, committed and creative — and you'd enjoy solving problems for our clients.

Contact us to learn more:

207-774-0882 • info@honeckotoole.com

P.S. Please share this with anyone you know who may fit this description. *Thank you!*

Call for Assistance Anytime!

We welcome your questions about taxes, financial planning, college planning, making the most of QuickBooks, or anything else related to your money.



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